FDIC State Profile

Fall 2004

Tennessee

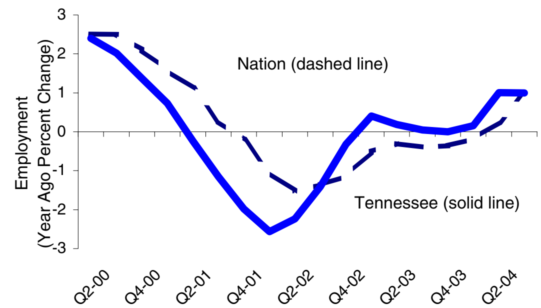
Employment trends in Tennessee remain positive.

- Employment levels in Tennessee grew 1.0 percent in second quarter 2004, compared with tepid growth of 0.05 percent a year ago (See Chart 1).
- During the quarter, employment growth was strongest in the areas of education and health, and leisure and hospitality.
- Tennessee's manufacturing sector lost fewer jobs in the second quarter, on a year-over-year basis, than in any other quarter during the past three years, as the state's three major manufacturing sub-sectors added jobs.[1] Auto-related business, such as transportation equipment, machinery, and motor vehicle parts, led the improvement (See Chart 2). The near term prospects for the auto-related segments appear bright with Exedy, Aisin Automotive, and M-Tek, a Nissan supplier, each announcing plans for plant expansions and additional hiring.
- Positive employment conditions in Tennessee may be aiding consumer finances, as bankruptcy filings have fallen slightly during the most recent quarters. However, the non-business bankruptcy rate in Tennessee remains the highest in the nation.[2]

Knoxville boasts the strongest employment growth of Tennessee's major markets.

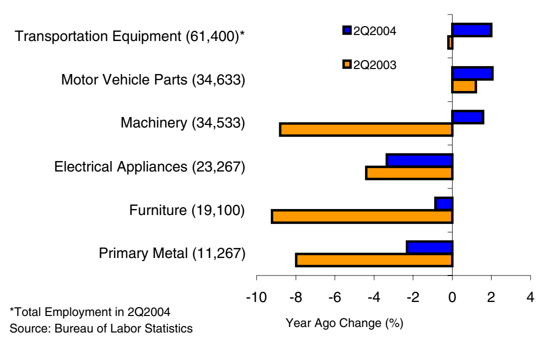
- Knoxville had the most impressive employment growth among the state's large metropolitan markets, more than twice the rate of **Memphis, Johnson City**, and **Chattanooga**. Employment growth in Knoxville was led by the trade/transportation/utilities, education and health services, and state and local government sectors. In contrast, weak job growth occurred in the services, leisure and hospitality, and manufacturing sectors. Knoxville's unemployment rate of 3.0 percent in the second quarter

Chart 1: Tennessee's Employment Growth Remains Positive, With Manufacturing Less of a Drag



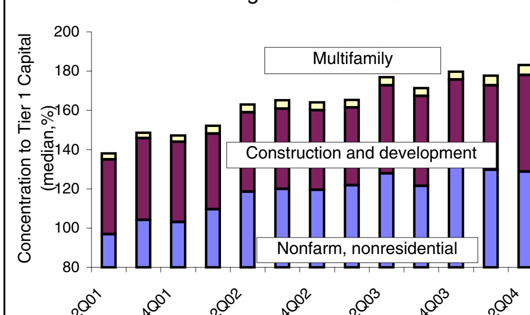
Source: Bureau of Labor Statistics

Chart 2: The Largest of Tennessee's Manufacturing Sub-sectors Grew in Second Quarter 2004



*Total Employment in 2Q2004
Source: Bureau of Labor Statistics

Chart 3: Commercial Real Estate Loan Exposure Reached A Record High in Second Quarter 2004



Source: FDIC

[1] The state manufacturing sector shed 500 jobs on a year-over-year basis in second quarter 2004, compared with more than 19,000 a year ago.
[2] Per capita bankruptcy filings in Tennessee have been higher than the nation since the early 1960s.

2004 was the lowest among all metropolitan areas in the state, and among the lowest in the nation.

- Total commercial and industrial (C&I) loans to businesses in the state increased 14.5 percent in second quarter 2004 from one year ago. Additionally, small C&I loans (those under $1 million) increased almost 11 percent.

Consumer credit quality improved, but remains a concern.

- Tennessee's high bankruptcy and foreclosure rates, ranking respectively 1st and 11th in the nation, are indicators of consumer financial distress. The state also ranked third highest nationally for reported past-due consumer loan levels.[3]

Commercial real estate (CRE) exposure reached an all time high in second quarter 2004.[4]

- Median CRE exposure was 203 percent of capital in second quarter 2004, up slightly from the previous quarter and 15 basis points greater than one year earlier. Futhermore, the median for CRE sub-components of nonfarm nonresidential and construction and development lending peaked in second quarter 2004 at 129 perent and 49 percent of capital, respectively (See Chart 3).

- CRE past-due rates decreased in second quarter 2004.[5] Significant CRE-related lending problems have failed to develop in recent years because of a favorable low interest rate environment, improved borrower equity positions, more stringent lending standards, and tremendous growth in publicly held CRE debt with related availability of market information.

Net interest margins (NIM) improved in second quarter 2004, but earnings decreased.

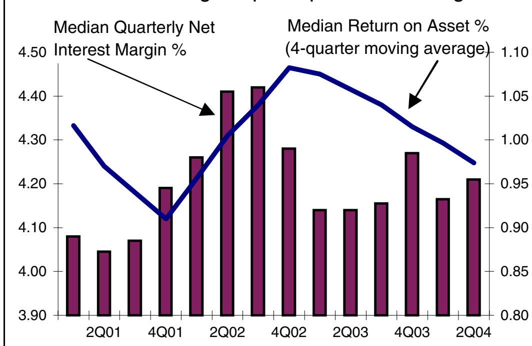
- The quarterly median NIM reported by established insured institutions headquartered in Tennessee was 4.21 percent in second quarter 2004, up from 4.14 percent one year ago. The margin improvement resulted from a decrease in funding costs relative to earning assets and an increase in loans, which typically offer higher rates of return than alternative investments.[6]

- The median return on assets (ROA) was 0.94 percent in second quarter 2004, down from 0.99 percent one quarter ago and down from 1.03 percent one year ago (See Chart 4). The current ROA is the lowest since year-end 2001 and is primarily attributable to increases in overhead expenses.

- As the national economy gains momentum, interest rates are expected to rise. An increase in interest rates, particularly if accompanied by a shrinking of currently high spreads between short- and long-term rates, could place significant downward pressure on NIMs.[7]

- Five Memphis metropolitan area headquartered institutions announced purchase deals by banks headquartered outside the state of Tennessee. Together, these institutions controlled approximately 33 percent of metro area deposits and 14 percent of deposits in the state.[8] The transactions highlight increasing interest in Tennessee banking markets and could translate into greater competition for loans and deposits.[9]

Chart 4: Earnings Slip Despite Better Margins



Source: FDIC

[3]The median past-due consumer loan ratio was 2.7 percent in second quarter 2004 for insured institutions in Tennessee, down from 3.3 percent one year ago. Nationally, the ratio was 1.8 percent in second quarter 2004, down from 20.1 percent one year earlier.

[4]Commercial real estate loans (nonfarm nonresidential, multifamily, and construction and development loans) to tier 1 capital reached the highest level since 1984, the earliest data available.

[5]The median CRE past-due ratio was 0.92 percent in second quarter 2004, compared with 1.20 percent one year earlier. Overall CRE past dues totaled $18.7 million in second quarter 2004, a 5 percent decrease from one year ago.

[6]Funding cost was 1.5 percent of earning assets in second quarter 2004, down from 2.0 percent one year ago. Median loan to asset levels reached 67 percent in the second quarter 2004, the highest level since first quarter 2001.

[7]Thirty-seven percent of bankers recently surveyed by the American Banker cited rising interest rates as one of the biggest concerns facing their institution.

[8]Federal Deposit Insurance Corporation-Summary of Deposits data, as of June 30, 2003.

[9]Thompson, Laura, "Where $600M-Plus of Runoff Would Go," American Banker May 13, 2004.

Tennessee at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	211	209	213	218	219
Total Assets (in thousands)	123,272,856	123,630,747	107,674,658	92,770,953	91,740,740
New Institutions (# < 3 years)	14	16	17	23	21
New Institutions (# < 9 years)	49	45	45	47	39

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.59	9.34	9.26	9.28	9.35

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.08%	2.43%	2.59%	2.85%	2.05%
Past-Due and Nonaccrual >= 5%	18	38	41	49	25
ALLL/Total Loans (median %)	1.33%	1.34%	1.34%	1.30%	1.25%
ALLL/Noncurrent Loans (median multiple)	2.17	1.85	1.60	1.55	2.00
Net Loan Losses/Loans (aggregate)	0.68%	0.50%	0.51%	0.39%	0.31%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	17	18	20	20	13
Percent Unprofitable	8.06%	8.61%	9.39%	9.17%	5.94%
Return on Assets (median %)	0.94	1.03	1.10	0.91	1.09
25th Percentile	0.64	0.65	0.67	0.59	0.80
Net Interest Margin (median %)	4.15%	4.13%	4.34%	4.07%	4.43%
Yield on Earning Assets (median)	5.74%	6.19%	6.95%	8.42%	8.51%
Cost of Funding Earning Assets (median)	1.52%	1.99%	2.62%	4.41%	4.12%
Provisions to Avg. Assets (median)	0.16%	0.21%	0.25%	0.19%	0.19%
Noninterest Income to Avg. Assets (median)	0.80%	0.79%	0.74%	0.77%	0.70%
Overhead to Avg. Assets (median)	3.11%	3.11%	3.04%	3.03%	3.01%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	79.53%	77.59%	77.66%	78.30%	80.09%
Loans to Assets (median %)	67.08%	65.69%	65.84%	66.10%	68.60%
Brokered Deposits (# of Institutions)	50	41	31	30	19
Bro. Deps./Assets (median for above inst.)	2.12%	2.24%	3.94%	3.49%	1.69%
Noncore Funding to Assets (median)	21.18%	21.34%	20.80%	21.40%	19.80%
Core Funding to Assets (median)	65.84%	66.95%	67.55%	67.00%	68.65%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	143	142	151	154	157
National	28	31	28	29	28
State Member	19	16	11	11	9
S&L	6	6	6	6	6
Savings Bank	14	13	16	17	18
Stock and Mutual SB	1	1	1	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	130	20,467,655	61.61%	16.60%
Nashville TN	24	6,558,805	11.37%	5.32%
Memphis TN-AR-MS	23	87,151,545	10.90%	70.70%
Knoxville TN	13	4,194,891	6.16%	3.40%
Johnson City-Kingsport-Bristol TN-VA	9	2,241,145	4.27%	1.82%
Chattanooga TN-GA	5	1,444,033	2.37%	1.17%
Clarksville-Hopkinsville TN-KY	4	939,152	1.90%	0.76%
Jackson TS	3	275,630	1.42%	0.22%